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FM SECSTATE WASHDC

TO AMEMBASSY SAN JOSE IMMEDIATE

AMEMBASSY SAN SALVADOR

C O N F I D E N T I A L STATE 232679

FOR SHLAUDEMAM FROM LUERS

FOLLOWING REPEAT PANAMA 6462 ACTION SECSTATE INFO USSOUTHCOM,
PANCANAL, GUATEMALA 17 SEP 76.

QUOTE C O N F I D E N T I A L PANAMA 6462

GUATEMALA FOR ROCAP

E.O. 11652: GDS

TAGS: ECON, EFIN, PN

SUBJECT: PANAMA'S ECONOMY STAGNATING: GOP IN SEVERE FINANCIAL
BIND

REF: (A) PANAMA 9111, (B) PANAMA 6361

1. SUMMARY: A MAJOR ECONOMIC AND FINANCIAL CRISIS IS
THREATENING PANAMA. THE GOP IS BEING FORCED TO CONSIDER BASIC
CORRECTIVES SUCH AS EASING THE LABOR CODE AND RAISING CON-
SUMER TAXES, WHICH COULD PROVE POLITICALLY EXPLOSIVE.

2. MOST KEY ECONOMIC INDICATORS FOR THE 1976 SECOND QUARTER
WERE DOWN RELATIVE TO BOTH THE PRECEDING AND YEAR AGO
QUARTERS, MANUFACTURING WAS OFF 6 PERCENT FROM THE FIRST
QUARTER. VALUE OF CONSTRUCTION PERMITS PLUMMETED 42 PERCENT
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FROM THE FIRST QUARTER'S ALREADY DEPRESSED LEVEL AND IS LITTLE

MORE THAN ONE THIRD OF THE YEAR AGO LEVEL. SECOND QUARTER IMPORTS AND EXPORTS WERE DOWN FROM A YEAR AGO. UNEMPLOYMENT IN PANAMA CITY HAS RISEN TO 9 PERCENT FROM 5 PERCENT LAST YEAR AT THIS TIME; A MINISTRY OF COMMERCE SOURCE ESTIMATES 30 PERCENT UNEMPLOYMENT IN COLON. DOMESTIC BANK CREDIT OUTSTANDING WAS BELOW THE FIRST QUARTER LEVEL. TAX REVENUES ARE RUNNING BEHIND A YEAR AGO, SUBSTANTIALLY BELOW BUDGETED LEVELS. TO ADD TO PANAMA'S ECONOMIC WOES, AGRICULTURE -- ABOUT THE ONLY BRIGHT SPOT IN THE ECONOMY SOME MONTHS AGO -- IS NOW SUFFERING SUBSTANTIAL CROP DAMAGE AND LOWERED OUTPUT (SEE REFTEL B) AS A RESULT OF DROUGHT CONDITIONS OVER THE PAST FOUR MONTHS. PRESENT POLITICAL UNREST IS SURE TO EXACERBATE THE OVER-ALL SITUATION.

3. THIS CONTINUED DETERIORATION THROUGHOUT THE PANAMANIAN ECONOMY REFLECTS THE FAILURE OF GOP POLICIES TO DATE TO EFFECTIVELY STIMULATE PRIVATE SECTOR INVESTMENT, DESPITE RECENT GOP GESTURES TO THE PRIVATE SECTOR AND THE APPARENT AVAILABILITY OF PLENTIFUL CREDIT. PRIVATE SECTOR REACTION INDICATES THAT THE ECONOMIC MALAISE IS MORE STRUCTURAL THAN CYCLICAL. STAGNATION TUS IS LIKELY TO PERSIST UNTIL THE GOP UNDERTAKES BASIC ECONOMY POLICY CHANGES WHICH STIMULATES A NEW GENERATION OF INVESTMENTS. ONE POLICY MEASURE WOULD PROBABLY HAVE TO BE EASING LABOR CODE CONSTRAINTS ON HIRING AND FIRING, WITH THE CONCOMITANT POLITICAL EFFECTS ON GOP RELATIONS WITH LABOR AND THE LEFT (SEE REFTEL A).

4. AN EQUALLY PRESSING PROBLEM IS THE SHORTFALL IN CENTRAL GOVERNMENT REVENUES WHICH IS FORCING CUTBACKS IN CURRENT EXPENDITURES. THE GOP HAS ALREADY USED LOANS TO COVER CURRENT OUTLAYS AND MAY REQUIRE ADDITIONAL FUNDS FROM THE PRIVATE BANKING SECTOR TO SVOID DEBT SERVICE DEFAULTS OR MORE CUTBACK IN SUCH POLITICALLY SENSITIVE AREAS AS DEFENSE AND EDUCATION. THIS WOULD SERIOUSLY UNDERMINE CREDITOR CONFIDENCE IN THE GOP. A NEW TAX PACKAGE THAT INCLUDES HIGHER CONSUMER TAXES (AS CURRENTLY BEING CONSIDERED) WILL BE ESSENTIAL TO STRENGTHEN THE GOP FINANCIAL STRUCTURE. THIS TOO WILL BE POLITICALLY DIFFICULT.

5. A MORE DETAILED REPORT WILL FOLLOW COVERING PANAMA'S
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CURRENT ECONOMIC AND FINANCIAL SITUATION. JORDEN
UNQUOTE. ROBINSON

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